

Message Text

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PAGE 01 OTTAWA 03759 272307Z
ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DODE-00 PM-05 H-01 L-03 PA-01
DOE-15 SOE-02 MCT-02 /130 W
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P 272241Z JUN 78

FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 8219
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO

C O N F I D E N T I A L OTTAWA 03759

PASS TREASURY FOR SYVRUD

PARIS ALSO FOR USOECD

BRUSSELS FOR USEC

E.O. 11652: GDS

TAGS: ECIN, EFIN, ECON, CA

SUBJECT: BONN SUMMIT POSTMORTEM

1. EXTAFF DEPUTY UNDERSECRETARY JOHNSTONE CONFIRMED
CANADIAN SUMMIT COMMITMENT ON ECONOMIC GROWTH IS BASED ON
NO CHANGE OF EXISTING POLICIES. GOC WELCOMED PRESIDENT
CARTER'S COMMITMENT ON ENERGY, AND WAS PLEASED WITH SUMMIT
OUTCOME. JOHNSTONE'S COMMENTS REFLECTED CANADIAN PRE-
OCCUPATION WITH ECONOMIC OUTLOOK IN U.S. AND BILATERAL
RELATIONSHIP. END SUMMARY.

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2. GROWTH AND INFLATION. JOHNSTONE CONFIRMED THAT
CANADIAN SUMMIT COMMITMENT TO REACH "UP TO 5 PERCENT"
ECONOMIC GROWTH IN 1977 IS BASED ON ASSUMPTION THAT NO
POLICY CHANGE WILL BE REQUIRED TO MEET THAT TARGET. HE
INDICATED THAT ECONOMIC GROWTH IN THE AREA OF 4.5 PERCENT
WOULD BE INCLUDED IN THIS DEFINITION OF CANADIAN GROWTH

TARGET. (EMBASSY AND MOST OTHER FORECASTERS CONTINUE TO SEE CANADIAN GROWTH THIS YEAR AS 4 PERCENT OR LESS.)

3. EC MONETARY ARRANGEMENT. JOHNSTONE, LIKE OTHER CANADIAN OFFICIALS, EXPRESSED GUARDED OPTIMISM ABOUT EXISTING PLANS FOR GREATER EUROPEAN MONETARY COOPERATION. WHILE SOMEWHAT SKEPTICAL ABOUT ABILITY OF EUROPEANS TO BRING DIVERGENT UNDERLYING ECONOMIC AND FINANCIAL CONDITIONS MORE IN LINE, HE SAID THAT ANY SUCCESS IN THIS DIRECTION WAS ONLY TO BE WELCOMED. PLAN'S GREATEST IMPORTANCE IN HIS VIEW WAS POLITICAL COMMITMENT BY FRANCE AND GERMANY, REFLECTING SCHMIDT'S BELIEF THAT GISCARD AND BARRE ARE ATTEMPTING A FUNDAMENTAL CHANGE IN FRENCH ECONOMIC POLICIES TOWARDS GREATER PRICE AND EXCHANGE STABILITY, EVEN IF AT SHORT RUN COST OF SOMEWHAT LESS GROWTH.

4. U.S. COMMITMENT. JOHNSTONE SAID GOC ATTACHES GREAT IMPORTANCE TO PRESIDENT CARTER'S STATEMENTS AT SUMMIT ON ENERGY POLICY WHICH REPRESENT A QUALITATIVELY HIGHER ORDER OF POLITICAL COMMITMENT. HE EXPRESSED, HOWEVER, SOME WORRY THAT SHOULD PRESIDENT BE UNABLE TO DELIVER ON COMMITMENTS LATER THIS YEAR IT WOULD BE HARDER FOR OTHER SUMMIT PARTICIPANTS, PARTICULARLY SCHMIDT, TO MOVE FORWARD ON THEIR PART OF PACKAGE.

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5. JOHNSTONE CHARACTERIZED ATMOSPHERICS AS BETTER THAN SOME HAD EXPECTED PRIOR TO MEETING. HE THOUGHT SCHMIDT'S CHAIRMANSHIP HAD BEEN PARTICULARLY SKILLFUL. JOHNSTONE SAID THAT IN RETROSPECT (AND AS FORMER CENTRAL BANKER) HE BELIEVED PERSONALLY THAT OVERALL EMPHASIS IN COMMUNIQUE MAY HAVE BEEN TOO STRONG ON GROWTH AND NOT STRONG ENOUGH ON DETERMINATION TO FIGHT INFLATION.

6. JOHNSTONE COMMENTED THAT FROM CANADIAN VIEWPOINT RECENT APPRECIATION OF YEN AGAINST DOLLAR AND PROGRESS TOWARDS EUROPEAN MONETARY COOPERATION HAD LESS IMPACT ON CANADIAN INTERESTS THAN THE IMMEDIATE ECONOMIC OUTLOOK FOR THE U.S. PRINCIPAL CONCERN, HE SAID, IS THAT INFLATIONARY FORCES MIGHT LEAD TO MONETARY RESTRAINT SO SEVERE AS TO BRING ABOUT CREDIT CRUNCH LATER THIS YEAR OR NEXT. SLOWING OR REVERSAL OF U.S. GROWTH WOULD HAVE SEVERE IMPACT ON CANADA, WHICH SEES FOREIGN DEMAND AS CRUCIAL COMPONENT OF CANADIAN GROWTH OVER NEXT 18 MONTHS (AND ACHIEVEMENT OF EVEN 4.5 PERCENT GROWTH THIS YEAR).

7. COMMENT: WHILE CANADIANS ARE PLEASED WITH SUMMIT

OUTCOME AND IN FAVORABLE PUBLICITY RECEIVED BY PRIMIN
TRUDEAU, ESPECIALLY ON HI-JACKING ISSUE, JOHNSTONE'S
REMARKS REFLECT CONTINUING CANADIAN PREOCCUPATION WITH
ECONOMIC CONDITIONS IN THE U.S. AS HAVING BY FAR THE
MOST IMPORTANT IMPACT ON CANADIAN INTERESTS. ENDERS

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